



## DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General  
Dallas Field Office – Audit Division  
3900 Karina Street, Room 224  
Denton, Texas 76208

September 17, 2003

### MEMORANDUM

TO: David I. Maurstad, Regional Director  
FEMA Region VIII  
*Tonda L. Hadley*

FROM: Tonda L. Hadley, Field Office Director

SUBJECT: Grant Management: Montana's Compliance  
With Disaster Assistance Program's Requirements  
Audit Report Number DD-13-03

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Attached for your review and follow-up action are five copies of the subject audit report prepared by L. R. Compton II, LLC, an independent accounting firm under contract with the Office of Inspector General. In summary, L. R. Compton II determined that the Montana Department of Military Affairs (DMA) and Department of Natural Resources and Conservation (DNRC) could improve certain financial and program management procedures associated with the administration of disaster assistance funds.

On June 5, 2003, you responded to the draft audit report (Attachment C to the attached report), stating that you agree with the recommendations. Your actions resolved and closed Recommendations F.5-1, F.5-2, and P.3-2 and no further action is required on these three recommendations. Your response was sufficient to resolve, but not close Recommendations F.2, F.3, F.4, F.6-1, F.6-2, P.1, P.2-1, and P.3-1. We cannot close these eight recommendations until we review the adequacy of the procedures outlined in your response and receive the region's assurance that DMA/DNRC has implemented the procedures.

Recommendations F.1, F.6-3, and P.2-2 remain unresolved because your response did not address them. Please advise this office by October 17, 2003, of actions taken or planned to implement these three recommendations. Any planned actions should include target completion dates.

We would like to thank your staff and the DMA and DNRC staffs for the courtesies extended the auditors during their fieldwork. Should you have any questions concerning this report, please contact Jerry Prem or me at (940) 891-8900.

Attachments

***L. R. COMPTON II, LLC***  
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August 4, 2003

Department of Homeland Security  
Office of the Inspector General  
Washington, D.C. 20472

L.R. Compton II, LLC conducted an audit of the State of Montana Department of Military Affairs (DMA) and Department of Natural Resources and Conservation (DNRC) in compliance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 93-288, as amended) and applicable Federal regulations. The audit was conducted at the request of the Federal Emergency Management Agency (FEMA); Office of Inspector General in accordance with Contract No.GS23F0046J dated May 1, 2002.

The audit objectives were to determine if the DMA and DNRC administered the FEMA disaster assistance programs in accordance with applicable Federal regulations, properly accounted for and expended Federal program funds, and submitted accurate financial expenditure reports. We found that either DMA or DNRC needed to improve its procedures for: (1) preparation, updating and approval of State administrative plans, (2) compliance with regulatory requirements for quarterly progress reports and Single Audit Act reports, (3) preparation of accurate and timely filed financial status reports, (4) allocation and accounting for program costs, (5) cash management, and (6) property management.

The audit was conducted under the authority of the Inspector General Act of 1978, as amended and in accordance with generally accepted government auditing standards, FEMA's Office of Inspector General audit guide, and 44 CFR. Although the report comments on certain financial related information, we did not perform a financial audit the purpose of which would be to express an opinion on the financial statements. The audit scope included financial and program activities for eleven Presidential disaster and emergency declarations open as of September 30, 2001. We reviewed all grants for the Public Assistance, Hazard Mitigation, Individual and Family Grant and Fire Suppression Assistance programs.

An exit conference was held to discuss the findings and recommendations included in the report with officials from FEMA Region VIII on February 27, 2003 and with DMA and DNRC on March 26, 2003. We have included the written comments from FEMA, DMA, and DNRC in Attachment C.

L. R. Compton II, LLC

The actions being taken by management officials appear adequate to resolve the conditions cited in the report and the findings have been resolved, pending follow-up work to be conducted at a later date.

L.R. Compton II, LLC appreciates the cooperation and assistance received, during the audit, from FEMA, DMA and DNRC personnel.

Sincerely,

L.R. Compton II, LLC  
Managing Principal

L. R. Compton II, LLC

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## I. EXECUTIVE SUMMARY

L. R. Compton II, LLC, has completed an audit of the administration of disaster and emergency assistance grant programs by the Montana Department of Military Affairs (DMA) and the Montana Department of Natural Resources (DNRC). The audit objectives were to determine if DMA and DNRC administered the grant programs in accordance with Federal regulations and accounted for, reported, and used FEMA funds properly. The report focuses on the systems and procedures within DMA and DNRC for assuring that grant funds are managed, controlled, and expended in accordance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act (as amended) and other applicable regulations.

The audit included programs funded under the Stafford Act to include Public Assistance Grants, Individual and Family Assistance Grants, Hazard Mitigation Program Grants, and Fire Suppression Assistance Grants that were programmatically open as of September 30, 2001. The disasters that were selected for audit include four major disaster declarations and seven fire suppression assistance declarations. The Federal share of the total funds obligated was \$46.6 million and the amount of Federal funds expended for these disasters was \$29.7 million. The major difference between the amounts obligated and expended occurs for three fire emergency declarations. Declarations Nos. 2314, 2317, and 2320 had obligated funds of \$41.6 million and had expended \$26.5 million. Audit fieldwork was completed on October 3, 2002.

Our findings regarding both financial and program management are discussed below, along with recommendations to improve DMA's or DNRC's management procedures, strengthen internal controls, and correct areas of noncompliance. Except for the findings contained in this report, nothing came to our attention during the audit that questioned the accuracy of information contained in the financial reports submitted to FEMA. However, improvements were needed in certain aspects of DMA's or DNRC's administration of FEMA disaster assistance grants. Areas in need of management attention included: (1) preparation, updating, and approval of State administrative plans, (2) compliance with regulatory requirements for quarterly progress reports and Single Audit Act reports, (3) preparation of accurate and timely filed financial status reports, (4) allocation and accounting for program costs, (5) cash management, and (6) property management.

### **Financial Management**

- DMA's list of accountable property did not include all DMA's equipment. DMA does not have adequate procedures to ensure that all equipment was accounted for in accordance with requirements. As a result, there was no assurance that all equipment was accounted for or safeguarded.
- DMA drew funds in excess of immediate needs for one fire suppression assistance declaration. The use by DNRC of ICARS (Incident Command and Accounting Reporting System), a nationally used software package used during fire fighting efforts, to draw down funds instead of the State's accounting system resulted in excess draws. As a result, no clear correlation between the actual cash expended by the State and that reported to FEMA existed.

- DMA did not allocate HMGP State management costs to its disaster grants based upon the time spent on managing the individual programs. Management costs were allocated to programs chronologically by disaster rather than to programs that were actually being worked on. Additionally, costs of \$38,498 were charged to a programmatically closed declaration due to a FEMA software problem. As a result, the State was allowed to recover these costs improperly rather than in accordance with 44 CFR 13.20 and the cost principles in OMB Circular A-87.
- DNRC financial management systems do not properly account for and report on the status of FEMA Fire Suppression Assistance programs. Fire Suppression Grant No. 2266 was declared on July 26, 1999 and Financial Status Reports (FSRs) were filed in August 1999 using estimated costs, and in March 2001 using actual costs. As a result, the State did not provide critical information of the State's financial activities annually as required.
- DNRC improperly applied an indirect cost rate to fire suppression. DNRC did not have a clear understanding of how to categorize costs and determine an indirect cost allowance for Fire Suppression Assistance (FSA) grants. DNRC allocated \$59,311 in indirect costs to Fire Suppression Grant No. 2266. It was determined that indirect costs should not have been applied to Fire Suppression Grants. As a result, the State was overpaid \$41,518 (FEMA's share) in assistance for indirect costs.
- FSRs were inaccurate for Public Assistance and Fire Suppression declarations. Total program outlays reported to FEMA for the Public Assistance Grant Program were incorrect for all three of the open disasters included on the September 30, 2001 Financial Status Reports (Standard Forms 269). Total program outlays reported to FEMA for the Fire Suppression Grant Programs were incorrect for five of the six open disasters included on the September 30, 2001 Financial Status Reports (Standard Forms 269). The 1999 Fire Suppression Grant was not included among the September 30, 2001 reports. As a result, FEMA was unable to carry out its financial stewardship duties and not able to determine whether the State was expending funds in a timely manner.

### **Program Management**

- DMA did not request audit reports from all subgrantees meeting the Single Audit Act expenditure threshold. They received reports from some subgrantees, but overlooked private non-profit organizations. As a result, DMA was unable to determine whether private non-profit organizations had adequate systems of internal controls or complied with Federal laws and regulations.
- DMA did not submit the required annual administrative plans and most of the required disaster-specific administrative plans to FEMA for review and approval. The State prepared an IFG plan for Disaster No. 1340, however did not prepare annual updates, as required. The State did not always submit the required PA and accompanying Fire Suppression administrative plans, and those they did submit had not been updated for several years. As a result, FEMA is unable to fully assess the adequacy of the grantee's management of the disaster assistance grant programs.

- DMA did not submit quarterly progress reports as required. DMA did not submit some reports, and those that were submitted did not always provide current, complete, and accurate status information. As a result, FEMA did not routinely receive information on the status of ongoing projects needed to monitor the projects more effectively.

## II. INTRODUCTION

### **MONTANA DEPARTMENT OF MILITARY AFFAIRS (DMA)**

The DMA oversees all activities of The Montana Army and Air National Guard, Disaster and Emergency Services, and provides administrative support to the Veterans Affairs Division. The DMA manages a joint federal-state program that keeps in readiness trained and equipped organizations for use by the Governor in the event of a state emergency and the President in the event of a national emergency. The DMA also plans for and coordinates state responses in disaster and emergency situations.

The mission of the Division of Emergency Services (DES) is to take the lead in coordinating comprehensive emergency management in Montana. The goals of the division are to, (1) ensure that a Comprehensive Emergency Management program exists in Montana to save lives and property, (2) reduce human suffering and enhance the recovery of communities after disaster strikes, and (3) provide quality customer service in all of its activities. The Centralized Services Division provides services for fiscal responsibility, accounting, budgeting, administrative support, and personnel management for all of the activities of the department including DES.

DES is functionally the lead unit in dealing with State and Federal disasters primarily for Individual and Family, Hazard Mitigation, and Public Assistance grants. The Governors Authorized Representative (GAR) for this type of Federal assistance is from this division. It also functions as a coordinating unit with local governments in the case of fire suppression grants and provides the link with FEMA's funding system.

### **MONTANA DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION (DNRC)**

The DNRC was established in July 1995, by a legislative reorganization of Montana's natural resource and environmental agencies. Among its several responsibilities, DNRC is responsible for protecting Montana's natural resources from wildland fires through regulation and partnerships with Federal, State, and Local agencies.

The Fire and Aviation Management Bureau under the Forestry Division is responsible for direct fire protection. Its mission is to provide resources, leadership, and coordination to Montana's wildfire services. This is accomplished through wildfire prevention, training, preparedness, and safe, aggressive suppression actions to protect lives, property, and natural resources.

The Centralized Services Division provides administrative and operational support to the department including fiscal affairs, data processing, personnel, legal, reception, mail, and trust revenue collection and distribution, maintenance of ownership records for trust and nontrust lands, procurement and contracting, information services, publications and graphic materials.

DNRC is functionally the lead unit in dealing with State and Federal fire suppression emergencies. The GAR for this type of Federal assistance is from this department. DNRC coordinates with DMA to obtain funding from FEMA and for financial reporting to FEMA.



## FEMA DISASTER ASSISTANCE PROGRAMS

The *Robert T. Stafford Disaster Relief and Emergency Assistance Act*, as amended, governs presidentially declared disasters and emergencies. Following a major disaster declaration or emergency, the Act authorizes FEMA to provide various forms of relief to the States, as grantees; and to state agencies, local governments, eligible private-nonprofit organizations, Indian Tribes, and Alaska Native Villages as sub-grantees. Title 44 of the Code of Federal Regulations provides further guidance regarding the requirements and administration of disaster and emergency relief grants.

FEMA has three major classifications of disaster relief grants: Public Assistance Grants, Individual and Family Grants, and Hazard Mitigation Program Grants. Fire Suppression Assistance Grants, which were also included in this audit, are administered in accordance with Public Assistance Grant procedures.

### Public Assistance Grants

Public Assistance (PA) Grants are awarded for the repair/replacement of facilities, debris removal, and emergency protective measures necessary as a result of a disaster. To receive a PA grant, a designated representative of the organization must sign a Notice of Interest. After the applicant completes the Notice of Interest, FEMA schedules an inspection of the damaged facilities. Inspection teams consist of FEMA, State, and local officials. The inspection team prepares a Project Worksheet (PW), formerly called a Damage Survey report (DSR), identifying the eligible scope of the work and the estimated cost for the project. Both DSRs and PWs are sent to FEMA for review and approval. FEMA's approval serves as the basis for obligating PA Grant funds.

### Individual and Family Grants

Individual and Family Grants (IFG) are awarded to individuals and families who, as a result of a disaster, are unable to meet disaster-related necessary expenses. To obtain assistance under this grant, the Governor of the State must express the intent to implement the program. This expressed intent includes an estimate of the size and cost of the program. The grantee has the responsibility for monitoring the program to ensure that the objectives and requirements of the program are met.

### Hazard Mitigation Grants

Hazard Mitigation Grants (HMGP) are awarded to States to help reduce the potential of future damages to facilities. The State must submit a letter of intent to participate in the program, and subgrantees must submit hazard mitigation grant proposals. The State is responsible for setting priorities for the selection of specific projects, but FEMA must provide final approval. FEMA awards sub-grants to local governments, eligible private non-profit organizations, Indian Tribes, and Alaska Native Villages. The amount of assistance available under this program must not exceed 20 percent of the total assistance provided under the other assistance programs. Congress amended the Stafford Act in PL 106-390 on October 30, 2000 increasing the percentage from 15 percent.

### Fire Suppression Assistance Grants

Fire Suppression Assistance (FSA) Grants are awarded to States for the suppression of any fire on publicly or privately owned forest or grassland when the Associate Director of FEMA determines that a fire threatens

such destruction as would constitute a major disaster. When a Governor determines that fire suppression assistance is warranted, a request for assistance may be initiated. Such a request shall specify in detail the factors supporting the request for assistance.

## Administrative Funds

Under the PA and HMGP programs, FEMA provides three types of administrative costs for grantee oversight of the programs. First, an allowance is provided by the Stafford Act to cover extraordinary costs directly associated with management of the program, such as overtime wages and travel costs. The amount of this allowance is determined by using a statutorily mandated sliding scale ranging from one-half to three percent of the total amount of Federal disaster assistance awarded to the grantee. Second, FEMA may award an administrative allowance referred to as “State Management Grants” on a discretionary basis to cover the State’s ordinary or regular costs directly associated with the administration of the programs. Third, FEMA may also award an administrative allowance for activities indirectly associated with the administration of the programs.

Under the IFG program, FEMA provides an administrative fee to the grantee for administrative costs that cannot exceed 5 percent of the Federal grant program payments.

**III. OBJECTIVES, SCOPE, AND METHODOLOGY****OBJECTIVES**

The FEMA Office of Inspector General (OIG) engaged L. R. Compton II, LLC to determine if the State of Montana (1) administered the FEMA disaster and emergency assistance programs in accordance with applicable Federal regulations, (2) properly accounted for and expended Federal program funds, and (3) submitted accurate financial expenditure reports.

**SCOPE**

The audit included all disaster assistance programs funded under the Stafford Act {Public Assistance Grants (PA), Individual and Family Grants (IFG), and Hazard Mitigation (HMGP) Grants} that were programmatically open as of September 30, 2001. The grants that were audited included four for major disaster declarations (DR) and seven for fire suppression assistance (FSA) emergencies.

| <b><u>Declaration No.</u></b> | <b><u>Description</u></b>           | <b><u>Date Declared</u></b> | <b><u>Assistance Provided</u></b> |
|-------------------------------|-------------------------------------|-----------------------------|-----------------------------------|
| 1340 (DR)                     | Fire                                | 08/30/2000                  | IFG & HMGP                        |
| 1350 (DR)                     | Severe Winter Storms                | 12/06/2000                  | PA & HMGP                         |
| 1377 (DR)                     | Severe Winter Storms                | 05/28/2001                  | PA & HMGP                         |
| 1385 (DR)                     | Severe Winter Storms                | 07/07/2001                  | PA & HMGP                         |
| 2266 (FSA)                    | Severe Fire (Fishel Creek)          | 07/26/1999                  | FSA                               |
| 2314 (FSA)                    | Severe Fire (3B Complex)            | 07/14/2000                  | FSA                               |
| 2317 (FSA)                    | Severe Fire (So.Wstn. 2 Complex)    | 08/03/2000                  | FSA                               |
| 2318 (FSA)                    | Severe Fire (3C Fire Complex)       | 08/08/2000                  | FSA                               |
| 2320 (FSA)                    | Severe Fire (No.Wstn. 1 Complex)    | 08/14/2000                  | FSA                               |
| 2321 (FSA)                    | Severe Fire (So. Central 4 Complex) | 08/16/2000                  | FSA                               |
| 2326 (FSA)                    | Severe Fire (Willie Fire, Carbon)   | 08/28/2000                  | FSA                               |

The audit included preliminary fieldwork at FEMA Region VIII in Denver, Colorado and audit verification work at the DMA offices in Helena, Montana and the DNRC offices in Missoula and Helena, Montana. The principal areas of audit were (1) internal controls, (2) financial reporting, (3) public assistance programs, (4) hazard mitigation programs, (5) individual and family grant programs, (6) fire suppression assistance grants, (7) procurement, and (8) property management. The audit emphasized the grantee's current procedures and practices for program and financial administration. Audit fieldwork was conducted from June 13, 2002 through October 2, 2002.

## METHODOLOGY

The audit was performed under the authority of the Inspector General Act of 1978, as amended, and in accordance with the FEMA OIG Audit Guide, generally accepted government auditing standards, and Title 44 of the Code of Federal Regulations. Audit procedures included (1) tests of evidence of the DMA's and DNRC's compliance with the requirements of 44 CFR and other FEMA policies, and (2) other procedures considered necessary under the circumstances. Our engagement does not provide a legal determination of DMA's or DNRC's compliance with those requirements.

We interviewed key FEMA officials and reviewed documents at FEMA Region VIII in Denver, Colorado to gain an understanding of the internal controls in place as well as to determine current issues and concerns regarding the State of Montana's administration and management of the disaster and emergency assistance programs. The majority of the audit work was performed at DMA's offices in Helena and DNRC's offices in Helena and Missoula, Montana. We interviewed key DMA and DNRC officials and reviewed documents to gain an understanding of DMA's and DNRC's organizational structures, internal control systems, and policies and procedures for managing the disaster and emergency assistance programs. We judgmentally selected and reviewed representative samples of program files and supporting documentation to determine if prescribed policies and procedures were followed. We also reviewed financial documents and reports to assess whether funds were budgeted, controlled, and expended adequately and financial reports were prepared accurately and on a timely basis. In performing our analyses, we applied the criteria contained in the Robert T. Stafford Disaster Relief and Emergency Assistance Act, as amended, 44 CFR, FEMA OIG Audit Guide, Individual and Family Grant Handbook, FEMA 322 Public Assistance Guide, Hazard Mitigation Grant Program Desk Reference, Guide to Managing Disaster Grants, and the Fire Suppression Assistance Handbook.

We reviewed the results of subgrantee audits performed by the FEMA OIG and OMB Circular A-133 Single Audits performed by Certified Public Accounting firms or the Montana State Legislative Audit Division.

The audit was conducted in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (Yellow Book 1994 Revision – as amended). We were not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we do not express an opinion of the costs claimed for the disasters under the scope of the audit. If we had performed additional procedures or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the accounts and items specified and does not extend to any financial statements of the DMA, the DNRC or the State of Montana. The audit did not include interviews with sub-recipients or technical evaluations of the repairs or damages caused by the disasters or emergencies.

## IV. FINDINGS AND RECOMMENDATIONS

The findings and recommendations focus on DMA and DNRC systems and procedures for ensuring that grant funds are managed, controlled, and expended in accordance with the Stafford Act and applicable Federal regulations. The findings are detailed below under the headings “Financial Management” and “Program Management.”

We believe that proper implementation of our recommendations will improve the overall management of FEMA programs and correct the noncompliance situations noted during the audit.

### A. FINANCIAL MANAGEMENT

#### F.1. Property Management Practices

DMA did not utilize the State’s asset management system to account for equipment acquired with a Federal grant. For Declaration No. 1340, a plotter was purchased in September 2001 and had not been entered into the system as of September 2002. The total cost of the plotter was \$9,869. As a result, there was no assurance that equipment acquired with Federal funds was adequately accounted for or safeguarded.

Even though DMA maintains property records in the State’s asset management system, we were informed that the system is updated when time permits. This asset management system is a separate module of the accounting system. The State’s accounting system is utilized for receipt and expenditure of funds; however, it is up to the Centralized Services Department to effectively reenter the capital expenditures into the State’s asset management module.

According to 44 CFR 13.32 (b), a State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures. State law, together with an accompanying operations manual management memorandum, requires that all capital equipment with a cost over \$5,000, be maintained within the State asset management system.

#### ***Conclusion:***

DMA did not take sufficient action to enter capital equipment into the State asset management system, in accordance with State laws and procedures. As a result, the State failed to adequately account for and safeguard property.

#### ***Recommendations:***

The Director, Region VIII, should require the State to develop and implement procedures to ensure that DMA complies with State laws and procedures requiring they add equipment to the asset management system.

***Management Response:***

Management states that The Centralized Services Division, DMA will enter the capital expenditures into Montana's "State Accounting, Budgeting & Human Resources System" (SABHRS) asset management module by the close of State Fiscal Year 2003, ending June 30, 2003.

***Auditor's Additional Comment:***

Management's comments were non-responsive to the recommendation of developing and implementing needed procedures. Therefore, this recommendation remains unresolved.

**F.2. Cash Management of Fire Suppression Grants**

DMA drew down Federal funds for fire suppression assistance for its own subgrantees and at the request of DNRC for its subgrantees; however, drawdowns were not based on the cumulative record of reimbursable expenditures. As a result, DMA drew down \$3,141,548 of Federal funds for Declaration No. 2314 without proper support or assurance that the funds were needed.

For fire suppression activities, the DNRC was designated as the Governor's Authorized Representative. DMA managed the SMARTLINK account for both organizations, as only one account for transfer of the Federal share was available. Additionally, the DMA managed coordination for payments of local governments so that fire fighters from volunteer fire departments could be paid due to the extraordinary circumstances existing during the year 2000 fires. As a result, drawdowns of Federal funds were based upon both organizations' needs. DNRC accumulated its costs using the Incident Command and Accounting Reporting System (ICARS), a nationally used software package used during fire fighting efforts, and developed Project Worksheets based upon this system. This system is independent of the State's accounting system used to record payment of actual expenditures. DNRC's requests for DMA to draw funds were based upon these project worksheets.

DNRC and DMA submitted costs to FEMA for Declaration No. 2314 and drew down via SMARTLINK \$10,758,090 as of September 18, 2000. The Federal share of this declaration was 100 percent. We found that total cash expenditures of both DNRC and DMA as of September 30, 2000, totaled \$7,616,542, and the excess cash drawn was \$3,141,548. Records indicated that the overdrawn amount was based upon excess draws from DNRC. State personnel stated that they used Declaration No. 2314 as the source of funds for several declarations, and that while it may have been overdrawn on this declaration, that overall they were not in an overdrawn condition. Our testing for actual expenditures versus draws did not examine all declarations at September 2000.

The drawing for all fire suppression grants on the DNRC side is done based upon use of ICARS. While the use of this system is helpful for the incident commanders and fire fighting crews, its relationship to the State's accounting systems is questionable. The magnitude of the fires during this period and the availability of the information through this

system made it the easiest to use, and most complete source, to claim reimbursement. However, these reports often contain data that is inaccurate, includes ineligible costs, and has nothing to do with the timing of payment of invoices for services received. Many of the invoices from outside sources take several months to receive, review, and pay.

The FEMA-State Agreement, which covered the understandings, commitments, and conditions under which FEMA fire suppression assistance would be provided, required the State to comply with all applicable regulations in 44 CFR. According to 44 CFR 13.21(b), grantees must minimize the time elapsing between the transfer of Federal funds and the subsequent disbursement.

***Conclusion:***

DNRC's requested drawdown of Federal funds was not based on a cumulative record of actual disbursements. As a result, \$3,141,548 was drawn down without proper support for Declaration No. 2314. The State rectified this condition as of the date of this report.

***Recommendations:***

The Director, Region VIII, should require the State to establish cash management procedures to minimize time elapsing between the drawdown of funds and actual payments.

***Management Response:***

Management states that DNRC has developed the necessary procedure that limits the draws from SMARTLINK to actual expenditures identified in SABHRS. These internal procedures will insure that the requirements of 44 CFR 13.21 are met and will be implemented by July 1, 2003. DNRC also created a new position of which one of its responsibilities will be to insure that these procedures are carried out.

***Auditor's Additional Comment:***

The control procedures implemented by DNRC, as described within the DMA's response, are sufficient to resolve, but not close, this recommendation.

**F.3. Allocation of Management Grant Costs**

DMA did not allocate salary costs charged to State management grants based upon the time spent on managing each declaration. As a result, \$38,498 of labor costs was charged incorrectly to a Declaration that was programmatically closed.

A management grant was approved for Disaster No. 1340, and the State's management costs were originally applied to that disaster. DMA charged payroll costs of \$9,751 to Disaster No. 1340 for pay periods ending between April 6 and June 15, 2001, for work performed on this declaration. This includes management costs for part of the salaries of three

individuals. In August 2001, these costs were de-obligated from Disaster No. 1340 and obligated to Disaster No. 1183. For the pay period ending July 13, 2001, through the pay period ending April 19, 2002, additional costs were incurred in the amount of \$28,747. These additional management costs were also charged to Disaster No. 1183. For HMGP grant purposes, Disaster No. 1183 was closed programmatically for all projects as of June 2001.

Salary costs incurred in the management of disaster declarations is maintained by DMA. DMA personnel prepare time sheets and this information is input into the State's accounting system. This information is then transferred to a form submitted with the quarterly progress reports to FEMA. The form backs up the draw requests to FEMA for the Federal share of management costs. However, the time sheets are not being used to allocate time spent to each disaster that is being managed. DMA is only allocating time to the disaster that has an open management grant.

Region VIII personnel stated that there was a problem with the National Emergency Management Information System (NEMIS) which overstated the administrative grant allowance and moved the costs to an open disaster that would accept these charges without the problem appearing. It was not possible to allocate management costs to the proper declaration without overstating the allowance until a software patch was developed. As of October 3, 2002, no corrections have been made even though the software problem was fixed.

Region VIII personnel also stated that they make all of the states apply management costs on a chronological basis, as do the remainder of the FEMA Regional Offices. Additionally, Disaster Nos. 1340, 1350, 1377, and 1385 were all in progress during this period and State management was required for each. Management costs were being incurred simultaneously on all of these grants, however, costs were being charged incorrectly to Disaster No. 1183.

According to OMB Circular A-87, Attachment B11 (h)(4), where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. The cost principles contained in the OMB Circular also provide that any cost allocable to a particular Federal award may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for any other reason.

***Conclusion:***

DMA allocation of management costs did not comply with cost principles outlined in OMB Circular A-87. As a result, \$38,498 of labor costs was not charged to the correct disaster.

***Recommendations:***

The Director, FEMA Region VIII, should require the State to establish procedures for allocating and accounting for costs consistent with the Federal requirements. These procedures should:



- ensure that the costs are properly allocated to reflect the benefits received by a particular program,
- require that all costs associated with the management of individual disaster assistance programs are appropriately accounted for, and
- consider using the State's existing timesheet and form to charge costs to the specific disaster declarations that are being worked on.

***Management Response:***

DMA, Hazard Mitigation Grant Program, has established procedures in order to track the Management and Administrative Costs. All personnel and administrative costs are now being accounted for and identified on the department's bi-weekly time cards and travel vouchers.

***Auditor's Additional Comment:***

DMA did not provide a copy of the procedures it established for tracking costs. Therefore, this recommendation is resolved, but not closed.

**F.4. Missing Financial Status Reports (FSR)**

Annual FSRs were not submitted for Fire Suppression Grant No. 2266 as required. The DMA relied on the DNRC to manage the Fire Suppression programs. This reliance included the submission of the required FSRs for the 1999 fires.

The Fire Suppression Grant No. 2266 was issued on July 26, 1999, and the first FSR was filed in August 1999 by DNRC based upon estimated costs of the incident (see finding on inaccurately prepared reports). The remarks section of the FSR indicated that the costs would be revised as the final figures became available.

In January 2001, FEMA and DNRC officials reconciled the project worksheets to the state accounting records. The State filed one additional FSR dated in March 2001, reflecting an adjustment from estimates to actual costs. The final project review was performed in September 2002.

Discussions with State officials did not reveal why there was no financial report in 2000 based upon the State's official accounting records, or annually at the end of each grant year.

DMA and FEMA Region VIII officials were not aware that the FSRs had not been prepared or submitted as required. The FSA program point of contact for DMA assumed that DNRC was submitting the reports because even though DMA requests the draw-downs via SMARTLINK, DMA was not involved with any other issues relating to the suppression

effort for the 1999 fires. For unknown reasons, DNRC and regional office officials did not enforce the requirement.

The regional official responsible for tracking financial reports assumed that since this declaration was programmatically closed and no additional activity was present that all required reports had been filed. However, changes were occurring within NEMIS that should have been reflected in FEMA's accounting system.

According to 44 CFR 13.41(b)(4), grantees are required to submit Financial Status Reports (FSRs) to the regional office within 90 days after the grant year for annual submissions. FEMA's policy is that FSRs are to be filed annually for fire suppression grants. FEMA's *Standard Operating Procedure (SOP) for Reconciling Grant Programs*, specifically the transmittal memorandum dated March 22, 1999, states that improving financial management practices is a top priority for FEMA and receiving and reconciling FSRs is a critical step in this initiative. In addition, FEMA's *Guide to Managing Disaster Grants* explains that the FSR is a critical component of disaster grant management because it (1) enables FEMA to carry out its financial stewardship duties, (2) is the official source for cost-share information, and (3) serves as a check to determine if grantees are expending Federal funds on a timely basis.

***Conclusion:***

By not filing annual reports, the State did not provide critical information of its financial activities as required. As a result, FEMA was not able to (1) carry out its financial stewardship duties, (2) obtain an official source for cost-share information, and (3) check to determine if the grantee was expending Federal funds on a timely basis.

***Recommendation:***

The Director, Region VIII, should require the State to establish procedures to ensure preparation and submission annually of FSRs in accordance with Federal requirements.

***Management Response:***

Management states that either DMA or DNRC will prepare the required FSRs. This requirement is included in the current "State of Montana – Public Assistance Administrative Plan" approved by FEMA, Region VIII on July 12, 2002.

***Auditor's Additional Comment:***

DMA did not provide a copy of procedures contained in the PA Administrative Plan approved by FEMA Region VIII on July 12, 2002. Therefore, this recommendation is resolved, but not closed.

**F.5. Indirect Cost Allowance**

DNRC improperly applied an indirect cost rate to Declaration No. 2266. As a result, the FSA grant award improperly included \$59,311 of indirect costs.

DNRC did not have a clear understanding of how to categorize costs and determine an indirect cost allowance for Fire Suppression Assistance (FSA) grants. They utilized an indirect cost rate approved by the U.S. Department of the Interior, their Federal Cognizant Agency. Therefore, they applied this rate to Declaration No. 2266 direct eligible fire suppression costs. Additionally, FEMA Region VIII officials originally thought that the indirect cost rate was to be applied to eligible cost categories.

Later, it was determined by Region VIII that they were applying indirect costs incorrectly based upon a determination by OMB, and should not have allowed indirect costs for fire suppression in Montana based upon DNRC's method of accounting for its direct cost base. OMB disallowed the indirect costs based upon DNRC's excluding "Grants and Assistance" and "Fire Suppressions" from its direct base expenditures. Because of this exclusion, the State could not apply its indirect rate to fire suppression costs in compliance with OMB Circular A-87.

The year 2000 fires, which include Declaration Nos. 2314, 2317, 2318, 2320, 2321, and 2326, did not charge indirect costs. The State was awaiting approval from Region VIII of its indirect cost rate percentage before applying for reimbursement of these costs. The regional office became aware of the improper usage of a possible rate due to the magnitude of the indirect allowance if the Region had applied Montana's rate as determined by the Department of the Interior.

According to 44 CFR 13.20(b)(5), applicable OMB cost principals, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs. Further, 44 CFR 13.22(b) says that allowable costs will be determined by cost principles provided in OMB Circular A-87, Cost Principles for a State, Local and Indian Tribal Governments. Specifically, A-87 Attachment E discusses the establishment, use, and determination of indirect costs rates. It defines an indirect cost rate as "a device for determining in a reasonable manner the proportion of indirect costs each program should bear."

***Conclusion:***

DNRC improperly applied an indirect cost rate to Declaration No. 2266. As a result, indirect costs were overstated by \$59,311 (FEMA share - \$41,518).

***Recommendations:***

The Director, Region VIII, should:

1. disallow the \$59,311 (\$41,518 FEMA share) in indirect costs, and
2. have FEMA approve all indirect cost rates in order to determine allowability.

***Management Response:***

Management states that they will not be applying for indirect costs on Fire Management Assistance Grant Program Declarations in the future. They also repaid the \$41,518 (FEMA share) on January 24, 2003.

***Auditor's Additional Comment:***

Therefore, these recommendations are resolved and closed.

**F.6. Inaccurate Financial Status Reports**

The total expenses reported by DMA and DNRC for six of the seven FSA grants and all three grants for public assistance grants did not agree with the State's accounting system. As a result, these inaccurate reports prevent FEMA from effectively managing the grant program and taking timely action to help ensure that the program objectives are met.

**Fire Suppression:** The DNRC is the GAR for fire suppression programs. DNRC prepared two FSRs for the 1999 Fire Suppression Grant No. 2266 (see finding regarding filing of reports). DMA prepared the remaining FSRs for Grant Nos. 2314, 2317, 2318, 2320, 2321 and 2326, based upon information from its own accounting records plus draws requested by the DNRC. DNRC draws were based upon ICARS reports until final reconciliations were prepared. DMA is responsible for the SMARTLINK account maintained for the State of Montana.

The following is a summary of the total eligible expenditures provided in the reports and the final reconciled State amounts as of September 30, 2001, for each fire suppression declaration where a difference occurred:

| Declaration<br>Number                                                                                                                                                                                                                              | Reported<br>on Form<br>269 | Actual<br>Expenditures<br>per State | Over/(Under)<br>Reported |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------------------------|--------------------------|
| 2266 (1)                                                                                                                                                                                                                                           | \$ 1,022,167               | \$ 968,879                          | \$ 53,288                |
| 2314 (2)                                                                                                                                                                                                                                           | \$ 18,264,397              | \$ 13,453,487                       | \$ 4,810,910             |
| 2317 (2)                                                                                                                                                                                                                                           | \$ 7,096,045               | \$ 11,582,448                       | \$ (4,486,403)           |
| 2318 (2)                                                                                                                                                                                                                                           | \$ 50,912                  | \$ 138,208                          | \$ (87,296)              |
| 2320 (2)                                                                                                                                                                                                                                           | \$ 1,131,924               | \$ 3,995,448                        | \$ (2,863,524)           |
| 2321 (2)                                                                                                                                                                                                                                           | \$ -                       | \$ 18,783                           | \$ (18,783)              |
| Total                                                                                                                                                                                                                                              | \$ 27,565,445              | \$ 30,157,253                       | \$ (2,591,808)           |
| (1) There was no report dated September 30, 2001, for this Declaration-The report dated March, 7, 2001 for this declaration reflects the amount used in this table. Declaration received 70% FEMA funding. Actual costs are per project close-out. |                            |                                     |                          |
| (2) Declarations received 100% FEMA funding.                                                                                                                                                                                                       |                            |                                     |                          |

The above represents substantial differences between reported and actual amounts. The total amounts drawn against all disasters did not, however, indicate an overall excess use of funds as of the same date.

The State is using ICARS reports in order to draw funds from FEMA for DNRC costs and to report them. Until final reconciliations are prepared, the actual numbers are not known to either State or Federal officials. Additionally, the complexity of determining the State share of expenses compounds the problem of accurate reporting. The six-party agreement along with multi-agency and local involvement adds an additional factor making the adjustments more complex.

The State accounting system does not provide for certain items includable in the accounting to the regional offices. Equipment usage and ineligible costs are among the many reconciling items necessary to determine actual eligible reimbursable items. These reconciliations required over a year of effort to produce.

**Public Assistance:** DMA did not prepare quarterly FSRs for Public Assistance Declaration Nos. 1350, 1377, and 1385 in accordance with the Form 269 instructions.

DMA, Centralized Services Division, prepares the FSRs on a quarterly basis and completes the Federal portion based upon the actual draws of program costs plus the grantee and subgrantee administrative cost allowance. The total costs are then determined by dividing the Federal portion by the percentage of funding, which is 75 percent in the case of the three declarations mentioned above. The State costs are then deemed the difference between the total and Federal cost share. This produces a result that is close to the actual, however, the State share and overall amounts will always vary slightly because actual costs are not used.

DMA, Centralized Services Division believes that it is to prepare the total costs reported on the FSR using a formula approach rather than using the actual accounting data available to it. They stated that Region VIII advised them that this is the proper way to prepare the report.

FEMA Region VIII denied having instructed the State to report anything other than the actual accounting data.

According to 44 CFR 13.41, grantees shall follow all applicable standard and supplemental Federal agency instructions approved by OMB in connection with the Standard Form 269, Financial Status Report (FSR). The specific form instructions are that the total program outlays for reports prepared on a cash basis are to include the disbursements for direct costs for goods and services, the amount of indirect expense charged, the value of in-kind contributions applied, and the amount of cash advances and payments made to subrecipients.

In addition, FEMA's Guide to Managing Disaster Grants explains that the FSR is a critical component of disaster grant management because it (1) enables FEMA to carry out its financial stewardship duties, (2) is the official source for cost-share information, and (3) serves as a check to determine if grantees are expending Federal funds on a timely basis.

***Conclusions:***

The Financial Status Reports are the basic reporting mechanism by which FEMA can determine the financial status of the awards to state grantees. FSRs should provide accurate, current, and complete information of the financial progress of the grant award. Financial management information should be supported by a financial management system that meets the standards set forth in 44 CFR 13. Inaccurate and/or incomplete information prevents FEMA from effectively managing the grant program and taking timely action to help ensure that the program objectives are met. When a grantee accepts an award, it assumes responsibility for accurately reporting the expenditures. DMA and DNRC did not have adequate procedures to ensure that the quarterly reports were accurate and complete or that the information reported came from its accounting system. In addition, the regional office did not have adequate review procedures in place to verify the accuracy and completeness of information submitted by DMA or DNRC.

***Recommendations:***

The Director, Region VIII, should require the State to develop and implement procedures to:

1. ensure that FSRs are prepared using actual accounting data,
2. follow detailed Form 269 instructions to prepare accurate reports, and
3. closely monitor eligibility issues to prevent the overdrawing of Federal funds.

***Management Response:***

Management will follow the form 269 instructions, and prepare reports based upon actual accounting data contained in the SABHRS system. Management will add procedures to the Public Assistance Plan due October 1, 2003 addressing preparation of the reports.

***Auditor's Additional Comment:***

Management's response was sufficient to resolve, but not close, Recommendations 1 and 2. However, the response did not address Recommendation 3, therefore, this recommendation remains unresolved.

## B. PROGRAM MANAGEMENT

### P.1. Single Audit Act Compliance

DMA did not request copies of audit reports from all subgrantees meeting the Single Audit Act expenditure threshold. Reports for private non-profit organizations, if received, were not reviewed to identify financial reporting inconsistencies and reportable conditions related to subgrantee management of Federal funds. As a result, DMA lacks an effective method for monitoring a recipient's financial performance, particularly with regard to the adequacy of its internal controls, and its compliance with Federal laws and regulations.

The Department of Administration, Local Government Services Bureau received reports from local governmental units. Subgrantees that are private non-profit organizations do not fall under the jurisdiction of this department. DMA management was not aware of having to request and review these reports.

We discussed DMA's Single Audit Act responsibilities with department officials and found that procedures for complying with the Single Audit Act did not exist for the PA program. With respect to the PA program, we noted that although subgrantees were notified of the Single Audit Act requirements in the preliminary application information and the subgrantees certify they will comply with the requirements, no other procedures had been established by DMA to ensure compliance with the Single Audit Act.

44 CFR 13.26(b) states that grantees and subgrantees are responsible for obtaining audits in accordance with the Single Audit Act Amendments of 1996 and revised OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." For fiscal years beginning after June 30, 1996, those organizations that expended \$300,000 or more in Federal funds during a fiscal year were required to satisfy the Single Audit provisions.

In addition, FEMA's *Guide to Managing Disaster Grants* explains that an audit is a systematic review made to determine whether internal accounting and other control systems provide reasonable assurance that the grantee's financial operations are properly conducted; financial reports are presented fairly and accurately; and applicable laws, regulations, and other grant terms have been complied with.

#### ***Conclusion:***

DMA did not have procedures for ensuring compliance with the provisions of the Single Audit Act. DMA lacks an effective method for (1) monitoring a recipient's financial performance, particularly with regard to the adequacy of its internal controls, and (2) its compliance with Federal laws and regulations.

***Recommendations:***

The Director, Region VIII, should require the State to develop and implement procedures to ensure compliance with the provisions of the Single Audit Act, which require the state to:

- identify the payments of FEMA program funds periodically made to each subgrantee,
- identify the ending fiscal year used by each subgrantee,
- identify the audit cycle followed by each subgrantee,
- follow-up with subgrantees that did not submit the required Single Audit reports,
- review the audit reports to identify financial reporting inconsistencies and reportable conditions related to each subgrantee, and
- ensure that appropriate corrective actions are taken.

***Management Response:***

Management will add procedures to the Public Assistance Administrative Plan due October 1, 2003 to ensure compliance with the Single Audit Act requirements.

***Auditor's Additional Comment:***

The described management actions are sufficient to resolve this recommendation with a target completion date of October 1, 2003.

**P.2. Administrative Plans**

DMA did not submit the required IFG annual administrative plan updates and the required disaster specific administrative plan to FEMA Region VIII for review and approval. In addition, DMA did not submit all the required PA and Fire Suppression plans, and those that were submitted had not been updated for several years. As a result, FEMA is unable to fully assess the adequacy of the grantee's management of the disaster assistance grant programs.

**IFG Administrative Plans:** DMA did submit an administrative plan until August 2000, and the Disaster Recovery Manager approved it in September for Disaster No. 1340. The State individual and family grants officer stated that the last time an administrative plan had been officially updated was in 1996. No updates had been filed annually up to the time of Disaster No. 1340, and no updates had been filed in 2001 or 2002.

The State DMA officials told us that they were not aware of the annual requirement for updates with the Regional Director. FEMA Region VIII officials stated that unless there are changes to a plan, they are accepting a verbal statement that there are no changes.



44 CFR 206.131(e)(1)(viii)(D)(3) requires states to submit IFG administrative plans to the Regional Director for review and approval each January. In each disaster for which IFG assistance is requested, the Regional Director shall request the State to prepare any amendments required to meet current policy guidance. These annual plans are to include the State's organization and procedures for administering FEMA-approved IFG programs.

**PA and Fire Suppression Administrative Plans:** The DMA office submitted an administrative plan dated January 2001 to the Regional Director of Region VIII. That plan included an attachment that specifically related to fire suppression, so there was only one plan combining public assistance and fire suppression.

The fire suppression Declaration No. 2266 was dated July 1999. Therefore, there was no administrative plan in effect when the 1999 fire declaration was made nor was one subsequently provided.

Fire suppression Declaration Nos. 2314, 2317, 2318, 2320, 2321, and 2326 all occurred during the year 2000 with dates varying from mid-July to late August. These declarations were issued without a valid administrative plan on file. The plan, dated January 2001, applied to these declarations, and was prepared after the declarations were made.

PA administrative plans were filed with Declaration Nos. 1350, 1377, and 1385. The Regional Director approved the plan in January 2001 for Declaration 1350. The plans for 1377 and 1385 were approved in June 2001.

The State DMA officials told us that they were in the process of working on many facets of the disaster declarations that had occurred and that they were unable to get through the process of a thorough administrative plan until 2001 when the bulk of the efforts related to the fires of 2000 had been finished. They were also not aware of the annual update requirements but only aware of the requirement that they be reviewed and updated with new disaster declarations. For the Fire Suppression Declaration 2266, DMA was not involved in the process of working with the declaration other than providing the resources to do the SMARTLINK drawdowns. DNRC was not involved in the process of creating or updating administrative plans.

States are required to submit PA and Fire Suppression administrative plans to the FEMA Regional Director for approval annually in accordance with 44 CFR 206.207(b)(3). In addition, grantees must prepare amendments to the annual plans to meet current policy guidance for each disaster for which a PA program is included. Federal requirements state that an approved plan must be on file before a PA grant will be approved in a future major disaster.

### ***Conclusion:***

Without current and accurate administrative and program plans, FEMA is unable to fully assess the adequacy of the grantee's management of the disaster assistance grant programs.

***Recommendation:***

The Director, Region VIII, should require the State to:

1. submit administrative plans that contain all of the required information, and
2. update and revise the plans, as required, to reflect the changing conditions and circumstances affecting the administration of the programs.

***Management Response:***

Management will add procedures to and file the Public Assistance Administrative Plan due October 1, 2003 to ensure compliance with the updating requirements.

***Auditor's Additional Comment:***

Addition of the new procedures to the new PA Administrative Plan due for filing on October 1, 2003, will resolve, but not close, Recommendation 1. Management did not address Recommendation 2, therefore, it remains unresolved.

**P.3. Quarterly Progress Reporting**

DMA did not submit quarterly progress reports to the Regional Director as required. No quarterly progress reports were filed for Declarations Nos. 1350, 1377, and 1385. These declarations had a significant number of projects requiring monitoring and coordination between local, State and Region VIII officials. As a result, FEMA was not able to properly monitor the projects and notify DMA when action was needed to help ensure successful and timely completion of the projects.

44 CFR 206.204(f) states that progress reports must be submitted to the RD quarterly. These reports are to describe the status of projects on which a final payment of the Federal share has not been made and outline any problems or circumstances expected to result in noncompliance with the approved grant conditions.

According to the PA program coordinator at DMA, they are in constant communication with FEMA regarding all projects. While the State may have been in communication with FEMA, none of the large projects for which final payment had not been made had quarterly progress reports filed. FEMA Region VIII officials stated that they did not enforce the filing of quarterly progress reports.

***Conclusion:***

By not filing quarterly reports, the State did not provide critical information on its program activities as required. As a result, FEMA was not able to properly monitor the projects and notify DMA when action was needed to help ensure successful and timely completion of the projects.

***Recommendation:***

The Director, Region VIII, should require the State to:

1. file quarterly progress reports so that FEMA can provide technical assistance and guidance to the State, and
2. provide the information in a format that is consistent with the requirements of FEMA.

***Management Response:***

Management will follow procedures in the Public Assistance Administrative Plan, approved by Region VIII on July 12, 2002. They will use the form attached as part of the States response to this report.

***Auditor's Additional Comment:***

DMA did not provide a copy of procedures it said are contained in the PA Administrative Plan approved by FEMA Region VIII on July 12, 2002. Therefore, Recommendation 1 is resolved, but not closed. Management's response is sufficient to resolve and close Recommendation 2.

## Attachments

**Schedule of Source and Application of Funds      Attachment A**  
**Montana Department of Military Affairs**  
**And**  
**Department of Natural Resources and Conservation**  
As of September 30, 2001

|                                                                     |
|---------------------------------------------------------------------|
| <b>Summary of All Disasters &amp; Emergencies in Scope of Audit</b> |
|---------------------------------------------------------------------|

|                                                    |                                   | <b>Individual<br/>&amp; Family<br/>Grants</b> | <b>Hazard<br/>Mitigation<br/>Grants</b> | <b>Public<br/>Assistance<br/>Grants</b> | <b>Fire<br/>Suppression<br/>Grants</b> | <b>Total<br/>Grants</b> |
|----------------------------------------------------|-----------------------------------|-----------------------------------------------|-----------------------------------------|-----------------------------------------|----------------------------------------|-------------------------|
|                                                    |                                   |                                               |                                         |                                         |                                        |                         |
| <b><u>Award Amounts</u></b>                        |                                   |                                               |                                         |                                         |                                        |                         |
|                                                    | Federal Share                     | \$ 171,000                                    | \$ 405,600                              | \$ 3,689,514                            | \$ 42,302,445                          | \$ 46,568,559           |
|                                                    | State/Local Share                 | \$ 57,000                                     | \$ 135,250                              | \$ 1,229,838                            | \$ 562,369                             | \$ 1,984,457            |
|                                                    | <b>Total Award Amount</b>         | <b>\$ 228,000</b>                             | <b>\$ 540,850</b>                       | <b>\$ 4,919,352</b>                     | <b>\$ 42,864,814</b>                   | <b>\$ 48,553,016</b>    |
|                                                    |                                   |                                               |                                         |                                         |                                        |                         |
|                                                    |                                   |                                               |                                         |                                         |                                        |                         |
| <b><u>Source of Funds</u></b>                      |                                   |                                               |                                         |                                         |                                        |                         |
|                                                    | Federal Share                     | \$ 147,647                                    | \$ 7,402                                | \$ 2,489,983                            | \$ 27,134,712                          | \$ 29,779,744           |
|                                                    | State/Local Share                 | \$ 49,215                                     | \$ 2,467                                | \$ 829,994                              | \$ 562,369                             | \$ 1,444,045            |
|                                                    | <b>Total Source of Funds</b>      | <b>\$ 196,862</b>                             | <b>\$ 9,869</b>                         | <b>\$ 3,319,977</b>                     | <b>\$ 27,697,081</b>                   | <b>\$ 31,223,789</b>    |
|                                                    |                                   |                                               |                                         |                                         |                                        |                         |
| <b><u>Application of Funds</u></b>                 |                                   |                                               |                                         |                                         |                                        |                         |
|                                                    | Federal Share                     | \$ 147,647                                    | \$ 7,402                                | \$ 2,489,983                            | \$ 27,020,630                          | \$ 29,665,662           |
|                                                    | State/Local Share                 | \$ 49,215                                     | \$ 2,467                                | \$ 829,994                              | \$ 562,369                             | \$ 1,444,045            |
|                                                    | <b>Total Application of Funds</b> | <b>\$ 196,862</b>                             | <b>\$ 9,869</b>                         | <b>\$ 3,319,977</b>                     | <b>\$ 27,582,999</b>                   | <b>\$ 31,109,707</b>    |
|                                                    |                                   |                                               |                                         |                                         |                                        |                         |
| <b><u>Balance of Federal<br/>Funds on Hand</u></b> |                                   | <b>\$ -</b>                                   | <b>\$ -</b>                             | <b>\$ -</b>                             | <b>\$ 114,082</b>                      | <b>\$ 114,082</b>       |

**Schedule of Source and Application of Funds**  
**Montana Department of Military Affairs**  
**And**  
**Department of Natural Resources and Conservation**  
As of September 30, 2001

**Attachment A-1**

|                                             |
|---------------------------------------------|
| <b>Disaster Declaration No. 1340 - Fire</b> |
|---------------------------------------------|

|                                                    |                                   | <b>Individual<br/>&amp; Family<br/>Grants</b> | <b>Hazard<br/>Mitigation<br/>Grants</b> | <b>Public<br/>Assistance<br/>Grants</b> | <b>Total<br/>Grants</b> |
|----------------------------------------------------|-----------------------------------|-----------------------------------------------|-----------------------------------------|-----------------------------------------|-------------------------|
|                                                    |                                   |                                               |                                         |                                         |                         |
|                                                    |                                   |                                               |                                         |                                         |                         |
|                                                    |                                   |                                               |                                         |                                         |                         |
| <b><u>Award Amounts</u></b>                        |                                   |                                               |                                         |                                         |                         |
|                                                    | Federal Share                     | \$ 171,000                                    | \$ 8,097                                | \$ -                                    | \$ 179,097              |
|                                                    | State/Local Share                 | \$ 57,000                                     | \$ 2,699                                | \$ -                                    | \$ 59,699               |
|                                                    | <b>Total Award Amount</b>         | <b>\$ 228,000</b>                             | <b>\$ 10,796</b>                        | <b>\$ -</b>                             | <b>\$ 238,796</b>       |
|                                                    |                                   |                                               |                                         |                                         |                         |
|                                                    |                                   |                                               |                                         |                                         |                         |
|                                                    |                                   |                                               |                                         |                                         |                         |
| <b><u>Source of Funds</u></b>                      |                                   |                                               |                                         |                                         |                         |
|                                                    | Federal Share                     | \$ 147,647                                    | \$ 7,402                                | \$ -                                    | \$ 155,049              |
|                                                    | State/Local Share                 | \$ 49,215                                     | \$ 2,467                                | \$ -                                    | \$ 51,682               |
|                                                    | <b>Total Source of Funds</b>      | <b>\$ 196,862</b>                             | <b>\$ 9,869</b>                         | <b>\$ -</b>                             | <b>\$ 206,731</b>       |
|                                                    |                                   |                                               |                                         |                                         |                         |
| <b><u>Application of Funds</u></b>                 |                                   |                                               |                                         |                                         |                         |
|                                                    | Federal Share                     | \$ 147,647                                    | \$ 7,402                                | \$ -                                    | \$ 155,049              |
|                                                    | State/Local Share                 | \$ 49,215                                     | \$ 2,467                                | \$ -                                    | \$ 51,682               |
|                                                    | <b>Total Application of Funds</b> | <b>\$ 196,862</b>                             | <b>\$ 9,869</b>                         | <b>\$ -</b>                             | <b>\$ 206,731</b>       |
|                                                    |                                   |                                               |                                         |                                         |                         |
| <b><u>Balance of Federal<br/>Funds on Hand</u></b> |                                   | <b>\$ -</b>                                   | <b>\$ -</b>                             | <b>\$ -</b>                             | <b>\$ -</b>             |

## Attachment A-2

|                                                |                   |  | Individual<br>& Family<br>Grants | Hazard<br>Mitigation<br>Grants | Public<br>Assistance<br>Grants | Total<br>Grants            |
|------------------------------------------------|-------------------|--|----------------------------------|--------------------------------|--------------------------------|----------------------------|
|                                                |                   |  |                                  |                                |                                |                            |
| <b><u>Award Amounts</u></b>                    |                   |  |                                  |                                |                                |                            |
|                                                | Federal Share     |  | \$ -                             | \$ 284,005                     | \$ 1,979,985                   | \$ 2,263,990               |
|                                                | State/Local Share |  | \$ -                             | \$ 94,668                      | \$ 659,995                     | \$ 754,663                 |
| <b>Total Award Amount</b>                      |                   |  | <b><u>\$ -</u></b>               | <b><u>\$ 378,673</u></b>       | <b><u>\$ 2,639,980</u></b>     | <b><u>\$ 3,018,653</u></b> |
|                                                |                   |  |                                  |                                |                                |                            |
|                                                |                   |  |                                  |                                |                                |                            |
| <b><u>Source of Funds</u></b>                  |                   |  |                                  |                                |                                |                            |
|                                                | Federal Share     |  | \$ -                             | \$ -                           | \$ 1,759,259                   | \$ 1,759,259               |
|                                                | State/Local Share |  | <u>\$ -</u>                      | <u>\$ -</u>                    | <u>\$ 586,420</u>              | <u>\$ 586,420</u>          |
| <b>Total Source of Funds</b>                   |                   |  | <b><u>\$ -</u></b>               | <b><u>\$ -</u></b>             | <b><u>\$ 2,345,679</u></b>     | <b><u>\$ 2,345,679</u></b> |
| <b><u>Application of Funds</u></b>             |                   |  |                                  |                                |                                |                            |
|                                                | Federal Share     |  | \$ -                             | \$ -                           | \$ 1,759,259                   | \$ 1,759,259               |
|                                                | State/Local Share |  | <u>\$ -</u>                      | <u>\$ -</u>                    | <u>\$ 586,420</u>              | <u>\$ 586,420</u>          |
| <b>Total Application of Funds</b>              |                   |  | <b><u>\$ -</u></b>               | <b><u>\$ -</u></b>             | <b><u>\$ 2,345,679</u></b>     | <b><u>\$ 2,345,679</u></b> |
|                                                |                   |  |                                  |                                |                                |                            |
| <b><u>Balance of Federal Funds on Hand</u></b> |                   |  | <b><u>\$ -</u></b>               | <b><u>\$ -</u></b>             | <b><u>\$ -</u></b>             | <b><u>\$ -</u></b>         |

## Attachment A-3

|                                                |                   |  | Individual<br>& Family<br>Grants | Hazard<br>Mitigation<br>Grants | Public<br>Assistance<br>Grants | Total<br>Grants     |
|------------------------------------------------|-------------------|--|----------------------------------|--------------------------------|--------------------------------|---------------------|
|                                                |                   |  |                                  |                                |                                |                     |
| <b><u>Award Amounts</u></b>                    |                   |  |                                  |                                |                                |                     |
|                                                |                   |  |                                  |                                |                                |                     |
|                                                | Federal Share     |  | \$ -                             | \$ 113,498                     | \$ 795,519                     | \$ 909,017          |
|                                                |                   |  |                                  |                                |                                |                     |
|                                                | State/Local Share |  | \$ -                             | \$ 37,883                      | \$ 265,173                     | \$ 303,056          |
|                                                |                   |  |                                  |                                |                                |                     |
| <b>Total Award Amount</b>                      |                   |  | <b>\$ -</b>                      | <b>\$ 151,381</b>              | <b>\$ 1,060,692</b>            | <b>\$ 1,212,073</b> |
|                                                |                   |  |                                  |                                |                                |                     |
|                                                |                   |  |                                  |                                |                                |                     |
| <b><u>Source of Funds</u></b>                  |                   |  |                                  |                                |                                |                     |
|                                                |                   |  |                                  |                                |                                |                     |
|                                                | Federal Share     |  | \$ -                             | \$ -                           | \$ 508,210                     | \$ 508,210          |
|                                                |                   |  |                                  |                                |                                |                     |
|                                                | State/Local Share |  | \$ -                             | \$ -                           | \$ 169,403                     | \$ 169,403          |
|                                                |                   |  |                                  |                                |                                |                     |
| <b>Total Source of Funds</b>                   |                   |  | <b>\$ -</b>                      | <b>\$ -</b>                    | <b>\$ 677,613</b>              | <b>\$ 677,613</b>   |
|                                                |                   |  |                                  |                                |                                |                     |
| <b><u>Application of Funds</u></b>             |                   |  |                                  |                                |                                |                     |
|                                                |                   |  |                                  |                                |                                |                     |
|                                                | Federal Share     |  | \$ -                             | \$ -                           | \$ 508,210                     | \$ 508,210          |
|                                                |                   |  |                                  |                                |                                |                     |
|                                                | State/Local Share |  | \$ -                             | \$ -                           | \$ 169,403                     | \$ 169,403          |
|                                                |                   |  |                                  |                                |                                |                     |
| <b>Total Application of Funds</b>              |                   |  | <b>\$ -</b>                      | <b>\$ -</b>                    | <b>\$ 677,613</b>              | <b>\$ 677,613</b>   |
|                                                |                   |  |                                  |                                |                                |                     |
| <b><u>Balance of Federal Funds on Hand</u></b> |                   |  |                                  |                                |                                |                     |
|                                                |                   |  | <b>\$ -</b>                      | <b>\$ -</b>                    | <b>\$ -</b>                    | <b>\$ -</b>         |



## Attachment A-4

|                                                |                   |  | Individual<br>& Family<br>Grants | Hazard<br>Mitigation<br>Grants | Public<br>Assistance<br>Grants | Total<br>Grants     |
|------------------------------------------------|-------------------|--|----------------------------------|--------------------------------|--------------------------------|---------------------|
|                                                |                   |  |                                  |                                |                                |                     |
| <b><u>Award Amounts</u></b>                    |                   |  |                                  |                                |                                |                     |
|                                                |                   |  |                                  |                                |                                |                     |
|                                                | Federal Share     |  | \$ -                             | \$ -                           | \$ 914,010                     | \$ 914,010          |
|                                                |                   |  |                                  |                                |                                |                     |
|                                                | State/Local Share |  | \$ -                             | \$ -                           | \$ 304,670                     | \$ 304,670          |
|                                                |                   |  |                                  |                                |                                |                     |
| <b>Total Award Amount</b>                      |                   |  | <b>\$ -</b>                      | <b>\$ -</b>                    | <b>\$ 1,218,680</b>            | <b>\$ 1,218,680</b> |
|                                                |                   |  |                                  |                                |                                |                     |
|                                                |                   |  |                                  |                                |                                |                     |
|                                                |                   |  |                                  |                                |                                |                     |
| <b><u>Source of Funds</u></b>                  |                   |  |                                  |                                |                                |                     |
|                                                |                   |  |                                  |                                |                                |                     |
|                                                | Federal Share     |  | \$ -                             | \$ -                           | \$ 222,514                     | \$ 222,514          |
|                                                |                   |  |                                  |                                |                                |                     |
|                                                | State/Local Share |  | \$ -                             | \$ -                           | \$ 74,171                      | \$ 74,171           |
|                                                |                   |  |                                  |                                |                                |                     |
| <b>Total Source of Funds</b>                   |                   |  | <b>\$ -</b>                      | <b>\$ -</b>                    | <b>\$ 296,685</b>              | <b>\$ 296,685</b>   |
|                                                |                   |  |                                  |                                |                                |                     |
| <b><u>Application of Funds</u></b>             |                   |  |                                  |                                |                                |                     |
|                                                |                   |  |                                  |                                |                                |                     |
|                                                | Federal Share     |  | \$ -                             | \$ -                           | \$ 222,514                     | \$ 222,514          |
|                                                |                   |  |                                  |                                |                                |                     |
|                                                | State/Local Share |  | \$ -                             | \$ -                           | \$ 74,171                      | \$ 74,171           |
|                                                |                   |  |                                  |                                |                                |                     |
| <b>Total Application of Funds</b>              |                   |  | <b>\$ -</b>                      | <b>\$ -</b>                    | <b>\$ 296,685</b>              | <b>\$ 296,685</b>   |
|                                                |                   |  |                                  |                                |                                |                     |
|                                                |                   |  |                                  |                                |                                |                     |
| <b><u>Balance of Federal Funds on Hand</u></b> |                   |  |                                  |                                |                                |                     |
|                                                |                   |  | <b>\$ -</b>                      | <b>\$ -</b>                    | <b>\$ -</b>                    | <b>\$ -</b>         |

**Schedule of Source and Application of Funds**  
**Montana Department of Military Affairs**  
**And**  
**Department of Natural Resources and Conservation**  
As of September 30, 2001

**Attachment A-5**

**Fires Suppression Emergency Declarations – All**

|                                  |  |  | Declaration Number |               |               |            |              |           |           |               |
|----------------------------------|--|--|--------------------|---------------|---------------|------------|--------------|-----------|-----------|---------------|
|                                  |  |  | 2266               | 2314          | 2317          | 2318       | 2320         | 2321      | 2326      | Totals        |
|                                  |  |  |                    |               |               |            |              |           |           |               |
| Award Amounts                    |  |  |                    |               |               |            |              |           |           |               |
| Federal Share                    |  |  | \$ 406,510         | \$ 23,495,967 | \$ 12,184,590 | \$ 164,442 | \$ 5,936,503 | \$ 42,849 | \$ 71,584 | \$ 42,302,445 |
| State/Local Share                |  |  | \$ 562,369         | \$ -          | \$ -          | \$ -       | \$ -         | \$ -      | \$ -      | \$ 562,369    |
|                                  |  |  |                    |               |               |            |              |           |           |               |
| Total Award Amount               |  |  | \$ 968,879         | \$ 23,495,967 | \$ 12,184,590 | \$ 164,442 | \$ 5,936,503 | \$ 42,849 | \$ 71,584 | \$ 42,864,814 |
|                                  |  |  |                    |               |               |            |              |           |           |               |
|                                  |  |  |                    |               |               |            |              |           |           |               |
| Source of Funds                  |  |  |                    |               |               |            |              |           |           |               |
|                                  |  |  |                    |               |               |            |              |           |           |               |
| Federal Share                    |  |  | \$ 520,592         | \$ 18,264,397 | \$ 7,096,045  | \$ 50,912  | \$ 1,131,924 | \$ -      | \$ 70,842 | \$ 27,134,712 |
| State/Local Share                |  |  | \$ 562,369         | \$ -          | \$ -          | \$ -       | \$ -         | \$ -      | \$ -      | \$ 562,369    |
|                                  |  |  |                    |               |               |            |              |           |           |               |
| Total Source of Funds            |  |  | \$ 1,082,961       | \$ 18,264,397 | \$ 7,096,045  | \$ 50,912  | \$ 1,131,924 | \$ -      | \$ 70,842 | \$ 27,697,081 |
|                                  |  |  |                    |               |               |            |              |           |           |               |
| Application of Funds             |  |  |                    |               |               |            |              |           |           |               |
|                                  |  |  |                    |               |               |            |              |           |           |               |
| Federal Share                    |  |  | \$ 406,510         | \$ 18,264,397 | \$ 7,096,045  | \$ 50,912  | \$ 1,131,924 | \$ -      | \$ 70,842 | \$ 27,020,630 |
| State/Local Share                |  |  | \$ 562,369         | \$ -          | \$ -          | \$ -       | \$ -         | \$ -      | \$ -      | \$ 562,369    |
|                                  |  |  |                    |               |               |            |              |           |           |               |
| Total Application of Funds       |  |  | \$ 968,879         | \$ 18,264,397 | \$ 7,096,045  | \$ 50,912  | \$ 1,131,924 | \$ -      | \$ 70,842 | \$ 27,582,999 |
|                                  |  |  |                    |               |               |            |              |           |           |               |
|                                  |  |  |                    |               |               |            |              |           |           |               |
| Balance of Federal Funds on Hand |  |  | \$ 114,082         | \$ -          | \$ -          | \$ -       | \$ -         | \$ -      | \$ -      | \$ 114,082    |
|                                  |  |  |                    |               |               |            |              |           |           |               |

**Comparison of Reported Expenditures      Attachment B**  
**Montana Department of Military Affairs**  
**And**  
**Department of Natural Resources and Conservation**  
**As of September 30, 2001**

| <u>Declaration<br/>Number</u>                                                                                                                                                                                                                                  |        | <u>Grant<br/>Type</u> |     | <u>Expenses Per<br/>FSR Report</u> | <u>Actual<br/>Expenses</u> | <u>Difference</u> | <u>Explanation of Differences</u>   |  |  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|-----------------------|-----|------------------------------------|----------------------------|-------------------|-------------------------------------|--|--|
|                                                                                                                                                                                                                                                                |        |                       |     |                                    |                            |                   |                                     |  |  |
| 1350                                                                                                                                                                                                                                                           |        | PA                    | *   | 586,420                            | 570,507                    | 15,913            | Used formula approach - not actuals |  |  |
| 1377                                                                                                                                                                                                                                                           |        | PA                    | *   | 169,403                            | 164,607                    | 4,796             | Used formula approach - not actuals |  |  |
| 1385                                                                                                                                                                                                                                                           |        | PA                    | *   | 74,171                             | 70,868                     | 3,303             | Used formula approach - not actuals |  |  |
| 2266                                                                                                                                                                                                                                                           | Note 1 | FSA                   | **  | 520,592                            | 406,510                    | 114,082           | Overexpended final allowed amounts  |  |  |
| 2314                                                                                                                                                                                                                                                           |        | FSA                   | *** | 18,264,397                         | 13,453,487                 | 4,810,910         | Used ICARS and Accrual Approach     |  |  |
| 2317                                                                                                                                                                                                                                                           |        | FSA                   | *** | 7,096,045                          | 11,582,448                 | (4,486,403)       | Used ICARS and Accrual Approach     |  |  |
| 2318                                                                                                                                                                                                                                                           |        | FSA                   | *** | 50,912                             | 138,208                    | (87,296)          | Used ICARS and Accrual Approach     |  |  |
| 2320                                                                                                                                                                                                                                                           |        | FSA                   | *** | 1,131,924                          | 3,995,448                  | (2,863,524)       | Used ICARS and Accrual Approach     |  |  |
| 2321                                                                                                                                                                                                                                                           |        | FSA                   | *** | -                                  | 18,783                     | (18,783)          | Used ICARS and Accrual Approach     |  |  |
|                                                                                                                                                                                                                                                                |        |                       |     |                                    |                            |                   |                                     |  |  |
|                                                                                                                                                                                                                                                                |        |                       |     |                                    |                            |                   |                                     |  |  |
|                                                                                                                                                                                                                                                                |        |                       |     |                                    |                            |                   |                                     |  |  |
| * State Expenses only                                                                                                                                                                                                                                          |        |                       |     |                                    |                            |                   |                                     |  |  |
| ** Amounts based upon inclusion of unallowable amounts                                                                                                                                                                                                         |        |                       |     |                                    |                            |                   |                                     |  |  |
| *** Based upon Federal expenditures                                                                                                                                                                                                                            |        |                       |     |                                    |                            |                   |                                     |  |  |
|                                                                                                                                                                                                                                                                |        |                       |     |                                    |                            |                   |                                     |  |  |
| Note 1: The last report filed for this declaration was dated March 7, 2001. The amounts reported here were based upon project worksheets and discussions with FEMA region VIII personnel through October 15, 2002. No report was filed for September 30, 2001. |        |                       |     |                                    |                            |                   |                                     |  |  |
|                                                                                                                                                                                                                                                                |        |                       |     |                                    |                            |                   |                                     |  |  |

**Management Comments**

**FEMA Region VIII**

**And**

**State of Montana**



## Federal Emergency Management Agency

Region VIII  
Denver Federal Center, Building 710  
Box 25267  
Denver, CO 80225-0267

R8 ORD

June 5, 2003

**MEMORANDUM TO:** Tonda L. Hadley  
Field Office Director

**FROM:** David L. Maurstad *David L. Maurstad*  
Regional Director

**SUBJECT:** Audit of State of Montana  
Administration of Disaster Funds  
Final Draft Audit Report

This memorandum is in response to your request for a written response, pursuant to FEMA Instruction 1270.1, of actions taken, or planned, to implement the subject draft audit report recommendations.

Our responses to findings are as follows:

- F.1 The Region believes the state's entry of all capital expenditures into their management system by June 30, 2003 resolves the finding.
- F.2 The Region believes that the internal procedure, when finalized, will resolve the finding.
- F.3 The Region agrees that the state's establishment of the proper accounting system, which individually tracks HMGP management and administrative costs, resolves the finding.
- F.4 The Region concurs that this finding is resolved by the approved Public Assistance Plan.
- F.5 The Region concurs that this finding is resolved.
- F.6 The Region concurs that the proposed actions will resolve the findings. The clarification of these procedures should be included in the pending Public Assistance Plan that the State will submit by October 1, 2003.
- P.1 The Region will review the plan when submitted to ensure that all the items identified in the finding are resolved.
- P.2 The Region will review the plan when submitted to ensure that all the items identified in the finding are resolved.
- P.3 The Region concurs that this finding is resolved. The proposed format meets the regulatory requirements.

2002

FEMA R-VIII REGIONAL DIR

06/06/03 12:20 FAX 303 235 4978

We hope these responses are sufficient to address your concerns. Please contact Jeanine Petterson at 303.235.4610, if you have any further questions.



**Department of Military Affairs**  
**DISASTER & EMERGENCY SERVICES DIVISION**  
**P.O. Box 4789**  
**Helena, MT 59604-4789**  
**406-841-3957 406-841-3965 (Fax)**

**DATE:** June 5, 2003

**MEMORANDUM**

**TO:** David I. Maurstad, Regional Director, FEMA Region VIII  
**FROM:**  James H. Anderson, Alternate Governor's Authorized Representative  
**SUBJECT:** **"FEMA Audit of Disaster Assistance Grant Program Management"**

Attached hereto you will find Montana's Response to the "FEMA Audit of Disaster Assistance Grant Program Management", completed by L.R. Compton II, LLC.

Our response includes actions already in place or planned, including target dates when appropriate.

I would like to take this opportunity to express our sincere thanks to Dawn Jacoby and Fern Rossi, of your staff, for their help and assistance to the State of Montana in the preparation of our response to this audit report.

**Attachment:**

Montana's Response to the:

"FEMA Audit of Disaster Assistance Grant Program Management", completed by L.R. Compton II, LLC.

0002

FEMA R-VIII REGIONAL DIR

06/13/03 09:35 FAX 303 235 4876

L. R. Compton II, LLC

**State of Montana  
Responses to the FEMA Audit  
Of  
Disaster Assistance Grant Program Management  
"Final Draft Audit Report"**

Explained below is the Department of Military Affairs and the Department of Natural Resources and Conservation, State of Montana, responses to the Audit of Disaster Assistance Grant Program Management "Final Draft Audit Report" completed by L.R. Compton II, LLC, Certified Public Accountants.

The State of Montana responses to the audits "Findings and Recommendations" will follow the sequence as shown below which was taken from the Table of Contents of the Audit Report.

|                                                              |             |
|--------------------------------------------------------------|-------------|
| <b>IV. Findings and Recommendations</b>                      | <b>Page</b> |
| <b>A. Financial Management .....</b>                         | <b>2</b>    |
| <b>F.1. Property Management Practices .....</b>              | <b>2</b>    |
| <b>F.2. Cash Management of Fire Suppression Grants .....</b> | <b>3</b>    |
| <b>F.3. Allocation of Management Grants Costs .....</b>      | <b>4</b>    |
| <b>F.4. Missing Financial Status Reports (FSR) .....</b>     | <b>5</b>    |
| <b>F.5. Indirect Cost Allowance .....</b>                    | <b>6</b>    |
| <b>F.6. Inaccurate Financial Status Reports .....</b>        | <b>7</b>    |
| <b>B. Program Management .....</b>                           | <b>8</b>    |
| <b>P.1. Single Audit Act Compliance .....</b>                | <b>8</b>    |
| <b>P.2. Administrative Plans .....</b>                       | <b>9</b>    |
| <b>P.3. Quarterly Progress Reporting .....</b>               | <b>10</b>   |



## **A. FINANCIAL MANAGEMENT**

### **F.1. Property Management Practices**

#### ***Conclusion:***

DMA did not take sufficient action to enter capital equipment into the State asset management system, in accordance with State laws and procedures. As a result, the State failed to adequately account for and safeguard property.

#### ***Recommendations:***

The Director, Region VIII, should require the State to:

- develop and implement procedures to ensure that DMA complies with State laws and procedures requiring they add equipment to the asset management system.

#### ***Response:***

The Centralized Services Division, Department of Military Affairs will enter the capital expenditures into the Montana's "State Accounting, Budgeting & Human Resources System" (SABHRS) asset management module by the close of State Fiscal Year 2003, ending June 30, 2003.

## **F.2. Cash Management of Fire Suppression Grants**

### ***Conclusion:***

DNRC's requested drawdown of Federal funds was not based on a cumulative record of actual disbursements. As a result, \$3,141,548 was drawn down without proper support for Declaration No. 2314. The State rectified this condition as of the date of this report.

### ***Recommendations:***

The Director, Region VIII, should require the State to:

- establish cash management procedures to minimize time elapsing between the drawdown of funds and actual payments.

### ***Response:***

The Department of Natural Resources & Conservation has developed the necessary procedure that limits the draws from SMARTLINK to actual expenditures identified in the "State Accounting, Budgeting & Human Resources System" (SABHRS). These internal procedures will insure the requirements of 44 CFR 13.21 are met and will be implemented by July 1, 2003 (See Draft of procedures on Page 12 of 13). DNRC also created a new full time equivalent position (State Fire Finance Officer) who has the Fire Management Assistance Grant Program responsibilities and will work with the Central Services Division, DNRC, to insure that the cash management procedures are within the timeframe required.

### **F.3. Allocation of Management Grant Costs**

#### ***Conclusion:***

DMA allocation of management costs did not comply with cost principles outlined in OMB Circular A-87. As a result, \$38,498 of labor costs was not charged to the correct disaster.

#### ***Recommendations:***

The Director, FEMA Region VIII, should require the State to establish procedures for allocating and accounting for costs consistent with the Federal requirements. These procedures should:

- ensure that the costs are properly allocated to reflect the benefits received by a particular program,
- require that all costs associated with the management of individual disaster assistance programs are appropriately accounted for, and
- consider using the State's existing timesheet and form to charge costs to the specific disaster declarations that are being worked on.

#### ***Response:***

The Department of Military Affairs, Hazard Mitigation Grant Program (HMGP), has established the required "Cost Codes and Task Profiles" in "State Accounting, Budgeting & Human Resources System" (SABHRS) in order to individually track the HMGP Management and Administrative Costs for all open disasters in Montana. By implementing the above actions all HMGP, personnel and administrative costs, are now being accounted for and identified separately on the department's bi-weekly time cards and travel vouchers.

#### **F.4. Missing Financial Status Reports (FSR)**

##### ***Conclusion:***

By not filing annual reports, the State did not provide critical information of its financial activities as required. As a result, FEMA was not able to (1) carry out its financial stewardship duties, (2) obtain an official source for cost-share information, and (3) check to determine if the grantee was expending Federal funds on a timely basis.

##### ***Recommendation:***

The Director, Region VIII, should require the State to:

- establish procedures to ensure preparation and submission annually of FSRs in accordance with Federal requirements.

##### ***Response:***

The State of Montana was negligent for not filing proper "Financial Status Reports" for the disasters covered in this audit report.

For all open & future Presidential declared disasters or Fire Management Assistance Grants the Department of Military Affairs (for Presidential declared disasters) or the Department of Natural Resources & Conservation (Fire Management Assistance Grants) will prepare and submit Financial Status Reports in accordance with 44 CFR 13.41(b)(3) & (4). This requirement is included in the current "State of Montana - Public Assistance Administrative Plan" which was approved by FEMA, Region VIII on July 12, 2002.

#### **F.5. Indirect Cost Allowance**

##### ***Conclusion:***

DNRC improperly applied an indirect cost rate to Declaration No. 2266. As a result, indirect costs were overstated by \$59,311 (FEMA share - \$41,518).

##### ***Recommendations:***

The Director, Region VIII, should disallow the \$59,311 in indirect costs and require the State to:

- have all indirect cost rates approved in advance by FEMA in order to determine allowability, and
- repay \$41,518 (FEMA share) determined ineligible.

##### ***Response:***

Fire suppression costs are not applied/included in the base for calculating DNRC's indirect cost percentage because "It has been our contention that the fluctuation of fire costs would create a very erratic indirect rate". Therefore, DNRC will not be applying indirect costs to future Fire Management Assistance Grant Program Declarations.

On January 24, 2003, DMA deposited \$114,081.97 into SMARTLINK and on January 30, 2003, FEMA approved PW 3-1 (FSA-2266, Package #7) which de-obligated the \$59,311 of indirect costs originally approved for Fire Suppression Declaration 2266. With the above action the state repaid the \$59,311 (FEMA share - \$41,518). The approval of Package #7 completed all actions on FSA-2266 and on April 9, 2003, the FEMA/State Agreement for FSA-2266 was closed out.

#### **F.6. Inaccurate Financial Status Reports**

##### ***Conclusions:***

The Financial Status Reports are the basic reporting mechanism by which FEMA can determine the financial status of the awards to state grantees. FSRs should provide accurate, current, and complete information of the financial progress of the grant award. Financial management information should be supported by a financial management system that meets the standards set forth in 44 CFR 13. Inaccurate and/or incomplete information prevents FEMA from effectively managing the grant program and taking timely action to help ensure that the program objectives are met. When a grantee accepts an award, it assumes responsibility for accurately reporting the expenditures. DMA and DNRC did not have adequate procedures to ensure that the quarterly reports were accurate and complete or that the information reported came from its accounting system. In addition, the regional office did not have adequate review procedures in place to verify the accuracy and completeness of information submitted by DMA or DNRC.

##### ***Recommendations:***

The Director, Region VIII, should require the State to develop and implement procedures to:

- ensure that FSRs are prepared using actual accounting data,
- follow detailed Form 269 instructions to prepare accurate reports, and
- closely monitor eligibility issues to prevent the overdrawing of Federal funds.

##### ***Response:***

The State of Montana was negligent for not filing accurate "Financial Status Reports" for disasters covered in this audit report.

The State of Montana will follow the instructions listed on the back of SF 269 for completion of the Financial Status Reports (FSR's). The FSR will be completed using actual expenditures identified in the "State Accounting, Budgeting & Human Resources System" (SABHRS) which will insure the requirements of 44 CFR 13.41 are met. The 44 CFR 13.41 requirement to complete and submit FSR's is included in the current "State of Montana - Public Assistance Administrative Plan" which was approved by FEMA, Region VIII on July 12, 2002.

## **B. PROGRAM MANAGEMENT**

### **P.1. Single Audit Act Compliance**

#### ***Conclusion:***

DMA did not have procedures for ensuring compliance with the provisions of the Single Audit Act. DMA lacks an effective method for (1) monitoring a recipient's financial performance, particularly with regard to the adequacy of its internal controls, and (2) its compliance with Federal laws and regulations.

#### ***Recommendations:***

The Director, Region VIII, should require the State to develop and implement procedures to ensure compliance with the provisions of the Single Audit Act, which require the state to:

- identify the payments of FEMA program funds periodically made to each subgrantee,
- identify the ending fiscal year used by each subgrantee,
- identify the audit cycle followed by each subgrantee,
- follow-up with subgrantees that did not submit the required Single Audit reports,
- review the audit reports to identify financial reporting inconsistencies and reportable conditions related to each subgrantee, and
- ensure that appropriate corrective actions are taken.

#### ***Response:***

The Disaster & Emergency Services Division, Department of Military Affairs will address and identify the procedures necessary to ensure the compliance with the Single Audit Act in the next update of the "State of Montana - Public Assistance Administrative Plan. The plan is scheduled to be updated and submitted to FEMA Region VIII by October 1, 2003.

## **P.2. Administrative Plans**

DMA did not submit the required IFG annual administrative plan updates and the required disaster specific administrative plan to FEMA Region VIII for review and approval. In addition, DMA did not submit all the required PA and Fire Suppression plans, and those that were submitted had not been updated for several years. As a result, FEMA is unable to fully assess the adequacy of the grantee's management of the disaster assistance grant programs.

### ***Conclusion:***

Without current and accurate administrative and program plans, FEMA is unable to fully assess the adequacy of the grantee's management of the disaster assistance grant programs.

### ***Recommendation:***

The Director, Region VIII, should require the State to:

- submit administrative plans that contain all of the required information, and
- update and revise the plans, as required, to reflect the changing conditions and circumstances affecting the administration of the programs.

### ***Response:***

The update of the "Individual & Family Grant (IFG) Administrative Plan" is a moot point, as this program is now administered by FEMA.

The Department of Military Affairs is in the process of updating the "State of Montana - Public Assistance Administrative Plan". The plan is scheduled to be updated and submitted to FEMA Region VIII by October 1, 2003.



### **P.3. Quarterly Progress Reporting**

#### ***Conclusion:***

By not filing quarterly reports, the State did not provide critical information on its program activities as required. As a result, FEMA was not able to properly monitor the projects and notify DMA when action was needed to help ensure successful and timely completion of the projects.

#### ***Recommendation:***

The Director, Region VIII, should require the State to:

- file quarterly progress reports so that FEMA can provide technical assistance and guidance to the State, and
- provide the information in a format that is consistent with the requirements of FEMA.

#### ***Response:***

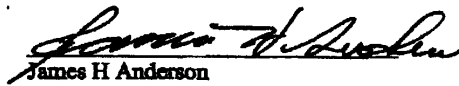
The Department of Military Affairs (DMA) was negligent for not filing "Quarterly Progress Reports" for presidential disasters covered in this audit report. .

For current/open and future Presidential declared disasters the Department of Military Affairs will prepare and submit Quarterly Progress Reports (QPR's) in accordance with 44 CFR 206.204(f). This requirement is included in the current "State of Montana – Public Assistance Administrative Plan" which was approved by FEMA, Region VIII on July 12, 2002.

The QPR will follow the format as shown in the example of the "Montana Large Project Quarterly Report", (see Page 13 of 13).

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State of Montana  
Department of Military Affairs  
Disaster and Emergency Services Division

 6-5-03  
James H. Anderson Date  
Alternate State Coordinating Officer  
Alternate Governor's Authorized Representative  
FEMA-1340-DR-MT  
FEMA-1350-DR-MT  
FEMA-1377-DR-MT  
FEMA-1385-DR-MT

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State of Montana  
Department of Natural Resources & Conservation

 6-5-03  
Bud Clinch Date  
State Coordinating Officer  
Governor's Authorized Representative  
FEMA-2266-FS-MT  
FEMA-2314-FS-MT  
FEMA-2317-FS-MT  
FEMA-2318-FS-MT  
FEMA-2320-FS-MT  
FEMA-2321-FS-MT  
FEMA-2326-FS-MT

**"DRAFT PROCEDURES"**

**FEMA SMARTLINK DRAWS  
for the  
FIRE MANAGEMENT ASSISTANCE  
GRANT PROGRAM (FMAGP)**

**Montana Department of Natural Resources and Conservation (DNRC)**

**Forestry Division (FD) Responsibilities:**

FD personnel will submit a bi-weekly estimate of fire costs by individual fire to Centralized Services in Helena. Estimates will be derived by using the Montana Cost Accounting Reporting System (MTCARS).

**Centralized Services Division (CSD) Responsibilities:**

CSD will compare the estimates for each fire project or organization number to actual expenditures on the State's Budget, Accounting, and Human Resource System (SABHRS). This action will be completed on a bi-weekly basis when the two week payroll and other expenses are processed through the system. Only money for actual eligible fire costs (to the best knowledge of the department) not previously billed will be drawn.

The form below will be completed for each SMARTLINK draw request and submitted to the Centralized Services Division, Montana Department of Military Affairs, for processing the SMARTLINK draw from the FEMA FMAGP.

**DNRC SMARTLINK DRAWS  
FIRE MANAGEMENT ASSISTANCE GRANT PROGRAM**

FEMA - -FMA-MT                      Costs From \_\_\_\_\_ To \_\_\_\_\_

| <u>FIRE #</u> | <u>FIRE NAME</u> | <u>ESTIMATED<br/>COSTS</u> | <u>ACTUAL<br/>COSTS</u> | <u>PREVIOUSLY<br/>BILLED</u> | <u>CURRENT<br/>BILLING</u> |
|---------------|------------------|----------------------------|-------------------------|------------------------------|----------------------------|
|---------------|------------------|----------------------------|-------------------------|------------------------------|----------------------------|

**Note:**

The purpose of this procedure is match FEMA cash draws with eligible expenditures for the Fire Management Assistance Grant Program and will be implemented by July 1, 2003.

# MONTANA LARGE PROJECT QUARTERLY REPORT

FEMA- -DR-MT

Report Date:

Report Period:

|                           |  |  |  |  |
|---------------------------|--|--|--|--|
| Subgrantee:               |  |  |  |  |
| FIPS-ID:                  |  |  |  |  |
| PW No.:                   |  |  |  |  |
| PW Category:              |  |  |  |  |
| Discription:              |  |  |  |  |
| App. PW Amount:           |  |  |  |  |
| FEMA 75% Share:           |  |  |  |  |
| Projected Eligible Costs: |  |  |  |  |
| Expended to Date:         |  |  |  |  |
| Reimbursed to Date:       |  |  |  |  |
| App. Completion Date:     |  |  |  |  |
| Est. Completion Date:     |  |  |  |  |
| % of Work Complete:       |  |  |  |  |
| Actual Completion Date:   |  |  |  |  |
| Final Payment Date:       |  |  |  |  |
| Comments:                 |  |  |  |  |